

MEMORANDUM

TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

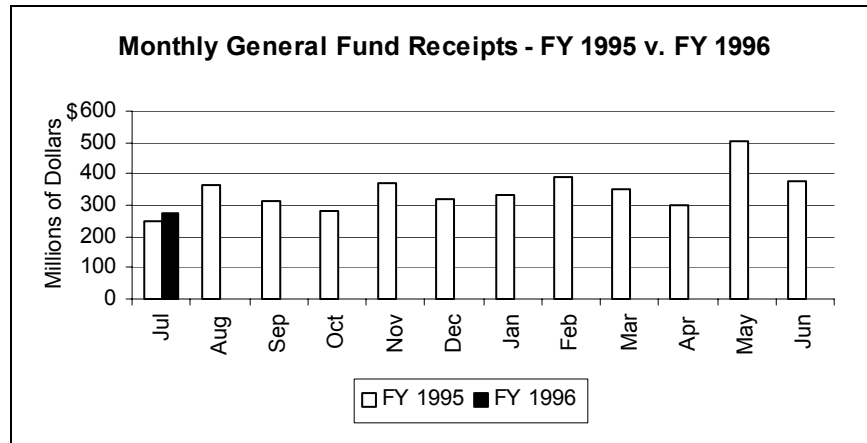
FROM: Dennis C. Prouty

DATE: August 1, 1995

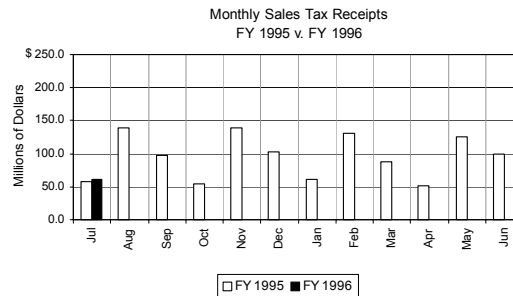
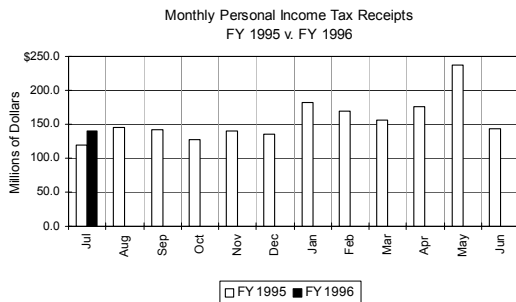
General Fund Receipts Through July 31, 1995

The attached spreadsheet represents total FY 1996 General Fund receipts, with comparable figures for FY 1995. These can also be compared to the latest FY 1996 estimate (\$4.285 billion) that was set by the Revenue Estimating Conference (REC) on July 10, 1995.

The REC revised the April estimate upward by \$26.4 million (0.6%) at the July meeting. Since the December meeting, the FY 1996 estimate of total receipts has been revised upward by a total of \$34.9 million (0.8%). The most recent estimate reflects a number of law changes that took place during the 1995 Legislative Session. A more detailed explanation of the July REC meeting is available in the July 27 issue of *Fiscal Update*.



Total year-to-date General Fund receipts for FY 1996 increased 11.0% over FY 1995. Tax receipts showed an increase of 11.2%. Personal income tax receipts increased 16.3%. Sales tax receipts were 6.2% higher than the previous fiscal year. Use tax increased 4.3% over FY 1995, and corporate income tax receipts showed a 28.7% increase.



Personal income tax receipts for July were \$19.6 million more than July 1994. This represents almost three-quarters of the total increase in General Fund receipts compared to July a year ago. Although the increase is substantial in percentage terms, July's receipts comprise a relatively small share of total fiscal year personal income tax receipts. It should also be noted that personal income tax receipts in July 1994 were approximately unchanged from July 1993, which indicates that July 1995 is being compared to an unusually small month. Additionally, a significant share of the impact from tax law changes is not expected until the Spring of 1996.

Receipts from the State sales tax was also stronger than anticipated in July. As with the personal income tax, July represents a small share of total fiscal year receipts. Nonetheless, July's sales tax receipts, which are comprised entirely of monthly filers, are a cause for optimism in light of the low performance of the tax source in the last quarter of FY 1995.

Corporate income tax receipts continued in FY 1996 where they left off in FY 1995. Although a portion of the increase is due to processing differences from a year ago, there is little doubt that corporate income tax receipts are continuing to reflect last year's strong corporate profits.

Franchise tax receipts continue to be a cause for concern. After finishing FY 1995 15.1% less than the previous year, franchise tax receipts in July were 38.5% lower than July 1994. The decrease is in line with what was being experienced in May and June. Receipts in May were 46.2% lower than May 1994, and June's receipts were 25.6% lower than June 1994. It appears that the effect of tax avoidance measures have exceeded REC expectations, at least over the last quarter. On May 26 the Governor signed SF 478, which is an attempt to curtail the use of investment subsidiaries. The Act did not have any effect on FY 1995 receipts, but is expected to increase FY 1996 receipts more than \$8.0 million. If July's receipts are any indication of what is to come, the effectiveness of SF 478 is highly questionable.

Receipts Compared to REC Estimate

The July REC FY 1996 estimate of 3.2% was exceeded by 7.8 percentage points. Assuming each month is expected to increase by the REC estimate, July's estimate was exceeded by approximately \$19.1 million. This should not necessarily be taken as an indication that the next 11 months will meet or exceed expectations.

Racing and gaming receipts continue to be closely monitored. The July REC raised the FY 1996 estimate to \$93.4 million, which is \$64.9 million (227.7%) higher than FY 1995 receipts. Although receipts through July trailed the fiscal year percentage estimate, two boats have yet to come on line. The Nebraska Racing Commission is investigating the possibility of installing slot machines at tracks. The Nebraska Legislature would have to approve such a measure. Although legislative action in other states certainly affects Iowa revenues, there is virtually no concern that there will be any impact on FY 1996 receipts.

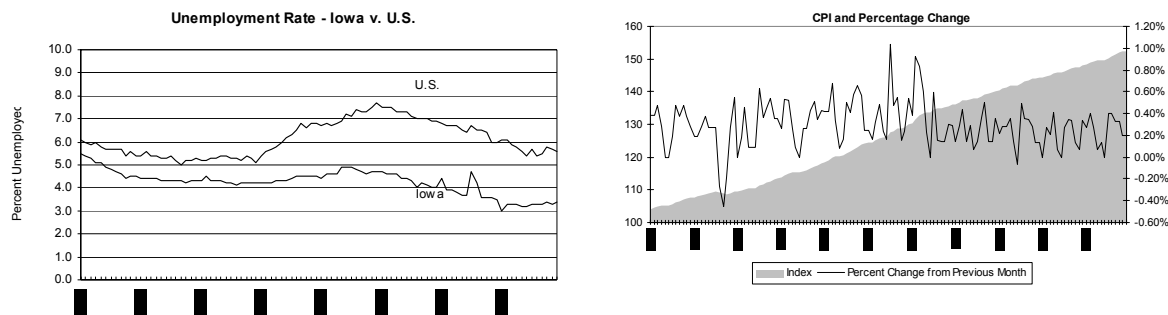
Obligations

School aid payments are to be paid in monthly installments, subject to the cash position of the State. All payments for FY 1995 have been made on schedule. Payments for FY 1996 will begin in September, and are expected to be completed by June 1996.

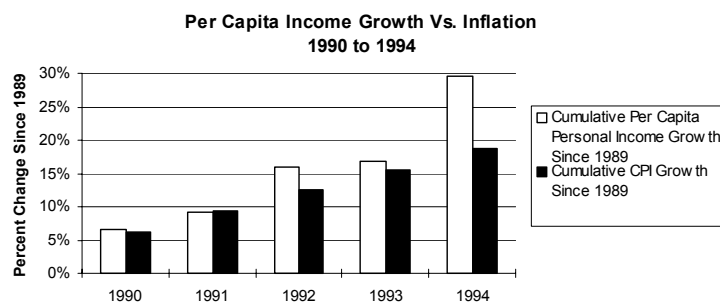
Status of the Economy

The seasonally adjusted percent unemployed for the State increased one tenth of a percentage point to 3.4% in June. The Department of Employment Services reported last month that job growth was somewhat weaker than it had been, particularly in the durable goods manufacturing sector. This effect continued in June. The U.S. unemployment rate decreased one-tenth of a percentage point to 5.6% in June. Although construction employment rebounded slightly, job losses in manufacturing are a cause of continued concern.

Consumer prices in June increased 0.2 %. The Consumer Price Index (CPI) through June 1995 was 152.5 (1983=100), which is 3.0% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through June 1995.



The Bureau of Economic Analysis has released state-by-state per capita income estimates through 1994. Iowa led all states with a 10.9% increase in per capita personal income, largely due to low farm income in 1993. Non-farm per capita personal income grew 6.6% over 1993. Nationally, Iowa's ranking moved up three spots to 29th since 1989. The following chart compares Iowa's per capita personal income with the CPI over the last five years.



We will be mailing special tax and economic performance reports on a monthly basis. Feel free to contact us for additional information or if you feel the report needs clarification.

GENERAL FUND RECEIPTS - PREVIOUS COMPARED TO CURRENT PERIOD					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars			
July 1, 1995, through July 31, 1995, in thousands of dollars					FY 95 Actual Compared to FY 96 REC Estimate			
	FY 1994	FY 1995	Year to Date % CHANGE	July % CHANGE	Actual FY 1995	Estimate FY 1996	% CHANGE	
Personal Income Tax	\$ 120,105.4	\$ 139,595.5	16.2%	16.2%	\$ 1,875.0	\$ 1,891.7	0.9%	
Sales Tax	58,499.4	62,070.1	6.1%	6.1%	1,147.3	1,188.6	3.6%	
Use Tax	16,156.1	16,815.9	4.1%	4.1%	196.0	205.8	5.0%	
Corporate Income Tax	10,821.4	13,954.6	29.0%	29.0%	268.7	270.0	0.5%	
Inheritance Tax	7,549.1	7,351.4	-2.6%	-2.6%	89.2	90.9	1.9%	
Insurance Premium Tax	107.3	(\$13.1)	-112.2%	-112.2%	102.1	101.0	-1.1%	
Cigarette Tax	7,155.0	7,099.7	-0.8%	-0.8%	93.3	94.0	0.8%	
Tobacco Tax	464.2	457.0	-1.5%	-1.5%	5.1	5.2	2.0%	
Beer Tax	1,265.5	1,266.3	0.1%	0.1%	12.4	12.5	0.8%	
Franchise Tax	3,904.5	2,380.8	-39.0%	-39.0%	28.9	33.4	15.6%	
Miscellaneous Tax	1,072.3	464.7	-56.7%	-56.7%	1.0	0.9	-10.0%	
Total Special Taxes	\$ 227,100.2	\$ 251,442.9	10.7%	10.7%	\$ 3,819.0	\$ 3,894.0	2.0%	
Institutional Payments	8,730.4	7,001.8	-19.8%	-13.6%	107.4	108.1	0.7%	
Liquor Transfers:								
Profits	500.0	0.0	-100.0%	-100.0%	26.4	25.4	-3.8%	
7% Gross Revenue	750.0	750.0	0.0%	0.0%	9.0	9.0	0.0%	
Interest	0.0	0.0	0.0%	0.0%	17.3	15.0	-13.3%	
Fees	4,253.2	4,629.0	8.8%	8.8%	57.3	60.3	5.2%	
Judicial Revenue	4,084.4	4,588.1	12.3%	12.3%	48.4	40.1	-17.1%	
Miscellaneous Receipts	2,993.8	2,131.5	-28.8%	-28.8%	40.7	39.6	-2.7%	
Racing and Gaming Receipt	1,010.2	3,226.5	219.4%	219.4%	28.5	93.4	227.7%	
TOTAL RECEIPTS	\$ 249,422.3	\$ 273,769.8	9.8%	9.1%	\$ 4,154.0	\$ 4,284.9	3.2%	